FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Georgia's $1.3B GO Bonds 'AAA'; Outlook Stable

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Fitch Ratings - New York - 06 Jun 2022: Fitch Ratings has assigned a 'AAA' rating to $1.27 billion in State of Georgia general obligation (GO) bonds, consisting of:

--$504,500,000 GO bonds 2022A;

--$186,565,000 GO bonds 2022B (federally taxable);

--$488,010,000 GO refunding bonds 2022C;

--$91,320,000 GO refunding bonds 2022D (federally taxable).

Fitch has also affirmed the Long-term Issuer Default Rating (IDR) of the State of Georgia and the ratings on its outstanding GO and state guaranteed revenue bonds issued by the State Road and Tollway Authority at 'AAA'.

Fitch has also affirmed the ratings on the following ratings linked to the state's IDR including two series of appropriation-backed bonds issued by the Development Authority of Clayton County (DACC):

--DACC revenue bonds (TUFF Archives LLC-Secretary of State of Georgia Project) series 2012 at 'AA+';

--DACC revenue bonds (DACC Public Purpose Corporation II Project), series 2007 (issued on behalf of the

Department of Natural Resources) at 'AA';

--Georgia school aid enhancement program at 'AA+'.

The Rating Outlook is Stable.

The bonds will be offered via competitive sale on or about June 22 2022. New money bond proceeds will be used primarily for various state capital projects, with refunding bond proceeds being issued for debt service savings. Par amounts are subject to change, dependent on market conditions.

SECURITY

The GO bonds and guaranteed revenue bonds are general obligations of the state of Georgia, backed by a pledge of the state's full faith and credit.

The DACC revenue bonds are paid from rental payments of TUFF Archives LLC and DACC Public Purpose Corporation II, respectively, which are derived from lease payments from the state, subject to annual appropriation.

ANALYTICAL CONCLUSION

Georgia's 'AAA' IDR, GO and guaranteed revenue bond ratings reflect the state's proven willingness and ability to maintain fiscal balance and a broad-based, growth-oriented economy that supports solid revenue growth over time. The state's long-term liability burden is low.

The rating on the DACC TUFF Archives LLC-Secretary of State of Georgia Project revenue bonds reflects the state's demonstrated commitment to the financing. Funds to support the archives, including lease payments, are appropriated annually to the board of regents.

The DACC Public Purpose Corporation II revenue bonds are structured similarly, but the exposure of bondholders to expense variability, primarily to building operations and maintenance costs, presents an additional risk feature warranting a two-notch distinction from the state's IDR.

The rating on the school aid intercept program reflects Georgia's overall credit quality, as well as the breadth and strength of the state's school aid intercept law and associated security features.

Economic Resource Base

Georgia's economic base is diverse and similar to that of the nation, although wealth indicators are below average. Growth in population and jobs has outpaced the nation over several decades, driving steady economic gains, and providing a solid foundation for future growth.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Georgia's revenues, primarily comprising income and sales taxes, will continue to reflect the breadth of the economy and its solid long-term growth potential. The state has complete control over its revenues, with an essentially unlimited legal ability to raise operating revenues as needed.

Expenditure Framework: 'aaa'

Consistent with most states, expenditure growth in Georgia is likely to marginally exceed revenue growth over time. Carrying costs for long-term liabilities are low but slightly above-average for a U.S. state. Georgia retains broad expense-cutting ability. Medicaid is a key expense driver, but Fitch expects the state will continue to actively manage it to constrain expense growth.

Long-Term Liability Burden: 'aaa'

Georgia's long-term liability burden is low, and overall debt management is conservative. The state regularly issues bonds for capital needs and principal amortization is rapid. Georgia fully funds its actuarially determined contributions (ADCs) for pensions supporting a modest net pension liability (NPL) burden.

Operating Performance: 'aaa'

The state is well positioned to deal with economic downturns with exceptionally strong gap-closing capacity, due to its broad control over revenues and spending, coupled with its reserve-building practices. Georgia has a track record of restoring financial flexibility during economic expansions, which is important given the state's above average revenue volatility, as indicated by the Fitch Analytical Stress Test (FAST) model.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--Not relevant for a 'AAA' rating.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--Sustained and unanticipated growth in carrying costs for debt and retirement liabilities towards or above 10% of total spending, signaling more restricted expenditure flexibility.

--Failure to quickly adjust to changing fiscal and economic circumstances and address budgetary challenges, including those resulting from tax policy changes.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Georgia's Economic Recovery Continues

Georgia suffered a steep decline in non-farm payrolls in April 2020 of 13.1% from the February 2020 peak driven by the onset of the coronavirus pandemic, less severe than the national decline of just under 15%. Through April 2022, Georgia's nonfarm payrolls recovered 116% of the jobs lost (compared to 95% nationally); the state had fully recovered all lost jobs as of December 2021. Georgia's official unemployment rate of 3.1% as of April was below both the nation (3.6%) and the states median (3.4%). Fitch also considers the employment to population ratio (EPOP) when evaluating the health of labor markets, and

Georgia's level suggests essentially a full labor market recovery. The state's EPOP of 60.3% in April was the state's median and just below its pre-pandemic rate of 60.5%.

Budget Actions Supported by Robust Surpluses

Georgia's revenue collections rebounded quickly after a dip in fiscal 2020 with fiscal 2021 outpacing expectations and fiscal 2022 set to end on June 30 with another large revenue surplus. Fiscal 2021 ended with general fund revenues exceeding the budgeted estimate by $3.9 billion. Following a deposit to the state's Revenue Shortfall Reserve (RSR, the primary operating reserve) to reach its statutory maximum of 15% of state general fund receipts ($4.3 billion), Georgia rolled a $2.1 billion unreserved, undesignated surplus into fiscal 2022.

Fiscal 2022 collections are similarly well ahead of the enacted budget ($25.8 billion in net revenue collections), and the state's amended fiscal year 2022 budget revised the estimate up to $28.6 billion, which would be essentially flat with fiscal 2021. Based on collections through March, which were up nearly 19% yoy ($3.6 billion), the state anticipates it will comfortably exceed even the revised estimate. Gains are driven by the state's primary revenue streams, the individual income tax (up $1.9 billion or 18% yoy through March) and sales tax (up $1.1 billion or 23% yoy). Corporate income tax is also up sharply, $320 million or 35% yoy. April tax collections continued the trend, though the delayed tax filing deadline in 2021 (consistent with the federal government's delay) makes yoy comparison of April income tax collections less meaningful.

The revenue surpluses have created significant non-recurring resources for the state to allocate for various needs with the legislature and governor acting during the recently completed 2022 legislative session. Primary uses of the revenue surpluses included reserve buildup (noted above), one-time tax refunds (estimated at $1.1 billion) and a gas tax holiday ($400 million from mid-March through May 31, 2022). A substantial balance of one-time resources remains - in fact the governor recently extended the gas tax holiday through July 14. Revenue surpluses are expected to be sufficient to offset any general fund effects.

Tax Policy, Education and Compensation Changes Embedded in Baseline Budget

Georgia also made a number of structural changes to its revenue and spending profile in the most recent legislative session based on a more robust budget outlook than had been previously anticipated. Fitch considers the changes manageable and unlikely to cause significant budgetary challenges for the state going forward.

Major permanent tax policy changes include a graduated transition to a flat individual income tax with a lower rate coupled with increased personal exemptions ($3.1 billion annually once fully implemented by fiscal 2031 at the earliest, but likely over a longer time frame), and enactment of a series of special exclusions or expanded tax credits ($250 million - $300 million annually). While significant in total dollar terms, the individual income tax changes are structured such that Fitch anticipates the state will manage their implementation without unduly affecting its robust financial resilience and balanced fiscal operations.

In terms of expenditures, the amended fiscal 2022 budget and enacted fiscal 2023 budget include significant restoration of cuts from earlier in the pandemic and new compensation increases. In the fiscal 2021 and original fiscal 2022 budget, the state included austerity cuts to K-12 and higher education funding. The legislature fully restored those cuts with just over $1 billion in funding over the two fiscal years. The 2022 and 2023 budgets also included approximately $1.9 billion to fund $2,000 pay increases for K-12 teachers (on top of $3,000 increases previously enacted), and $5,000 increases for state employees and University System of Georgia employees.

Initial ARPA Uses Aligns One-Time Uses with a One-Time Source

Under the American Rescue Plan Act (ARPA), Georgia's state government is in line to receive $4.854 billion in direct aid from the Coronavirus State and Local Fiscal Recovery Funds (FRF), with the first installment of half the aid received last May. Georgia will receive the balance relatively soon. Separately, Georgia is entitled to $262 million from the Coronavirus Capital Projects Fund established by ARPA.

Georgia's governor, based on guidance from designated taskforces, has announced FRF awards for broadband projects ($408 million), water and sewer infrastructure ($422 million) and economic recovery grants ($415 million). Fitch anticipates future uses of the state's FRF allocation will similarly be largely for one-time grants and projects.

CREDIT PROFILE

Georgia School Aid Intercept Program Rating Details

The 'AA+' rating on the school aid intercept program reflects Georgia's overall credit quality, as well as the breadth and strength of the state's school aid intercept law and associated security features. Sections 20-2-170 and 20-2-480 of the Official Code of

Georgia Annotated allow school districts to participate in the intercept program and outline the mechanics.

Participating school districts must authorize and direct the state Board of Education (BOE) to intercept appropriated aid and redirect it to pay debt service. Districts provide an irrevocable resolution of the governing board providing this authorization to the state BOE. Per the resolutions, participating school districts must make debt service payments to a sinking fund custodian, trustee, or paying agent, 15 days prior to debt service due dates for bondholders. The district and sinking fund custodian, trustee, or paying agent must notify the BOE of any shortfalls. By statute and the resolution, in the event of a shortfall, the BOE must intercept a school district's state aid to pay debt service not less than two business days before debt service is due.

DACC - TUFF Archives Bond Details

The state archives are located in Morrow, Georgia, adjacent to the campus of Clayton State University. The archives house certain state and local government records, including all state legislative records, business registrations, and property records. The series 2012 bonds are not issued by Georgia but are supported by appropriated payments from the state. The state has established procedures for similar annual leases with multi-year renewals undertaken by state agencies whereby the State Properties Commission (SPC) and the Georgia State Financing and Investment Commission (GSFIC - the primary oversight body for the state's debt issuance which includes the Governor as a board member) must obtain approval from SPC and GSFIC before cancelling any such leases. The intent of the policy is to ensure centralized oversight of these leases.

The Development Authority of Clayton County (TUFF Archives LLC - Secretary of State of Georgia Project), series 2012 revenue bonds are limited obligations of the authority paid with rental payments of TUFF Archives LLC. TUFF Archives LLC receives annual lease payments appropriated from the state's general fund, appropriated to the Board of Regents which manages the facility. The bonds do not carry a direct pledge of the state, although the state has demonstrated a commitment to the bonds.

While the state is not a regular user of lease-backed appropriation credits, the characteristics support a one-notch distinction from the state's 'AAA' IDR. This transaction does not include any of the common risk factors that would warrant a further rating distinction.

DACC - Department of Natural Resources Facility Bonds Details

The series 2007 bonds issued on behalf of the Department of Natural Resources (DNR) share many structural similarities with TUFF Archives bonds described above, including a similar lease structure. However, the flow of funds distinguishes this transaction from a similar appropriation-backed transaction for the state (TUFF Archives project). Operating and maintenance (O&M) expenses for the series 2007 bonds sit ahead of debt service in the indenture's flow of funds. Fitch's assessment is that sufficient mitigants are in place to warrant a two-notch distinction from the IDR.

Fitch considers the O&M expense profile for the facility as relatively modest in scope and further supported with a capital expense fund built into the flow of funds. DNR and SPC also have a long history of actual rental payments indicating generally modest annual increases. Georgia's enacted budgets include general fund appropriations for rental payments within the budget for the Department of Natural Resources.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Georgia, State of (GA) [General Government]	LT IDR Affirmed	AAA Rating Outlook Stable	AAA Rating Outlook Stable

Georgia School Aid Intercept Program (GA) /State School Bond Program Rating/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
Georgia, State of (GA) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Georgia, State of (GA) /State Appropriation - DACC and DNR/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
Georgia, State of (GA) /State Appropriation/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Clayton County Development Authority (GA)	EU Endorsed, UK Endorsed

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